

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

March 31, 2009

TO: Honorable Judith Zaffirini, Chair, Senate Committee on Higher Education

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: SB1443 by Zaffirini (Relating to the academic costs charged to resident undergraduate students by general academic teaching institutions and certain reports regarding the operational costs of those institutions.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1443, As Introduced: a negative impact of (\$275,140) through the biennium ending August 31, 2011.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	(\$137,570)
2011	(\$137,570)
2012	(\$137,570)
2013	(\$137,570)
2014	(\$137,570)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from <i>Institutional Funds</i> 997	Probable Revenue (Loss) from <i>Est Oth Educ & Gen Inco</i> 770	Probable (Cost) from <i>General Revenue Fund</i> 1
2010	(\$33,524,826)	(\$3,753,750)	(\$137,570)
2011	(\$58,679,770)	(\$3,757,500)	(\$137,570)
2012	(\$86,708,824)	(\$3,761,250)	(\$137,570)
2013	(\$117,864,539)	(\$3,765,000)	(\$137,570)
2014	(\$152,419,426)	(\$3,768,750)	(\$137,570)

Fiscal Year	Change in Number of State Employees from FY 2009
2010	2.0
2011	2.0
2012	2.0
2013	2.0
2014	2.0

Fiscal Analysis

Under provisions of the bill, the total academic costs charged by a general academic teaching institution to an undergraduate student who is a resident of this state for an academic year may not

exceed the total academic costs that the institution would have charged to a similarly situated student in the preceding academic year by more than the lesser of: (1) five percent; or (2) if the legislature has appropriated from undedicated general revenue funds available to pay the institution's core operational costs estimated by the Legislative Budget Board for the current state fiscal biennium a greater percentage than the legislature appropriated from undedicated general revenue funds available to pay the institution's core operational costs for the preceding state fiscal biennium, a percentage that would produce an amount of total academic costs charged to students that, when added to the additional amount of undedicated general revenue funds available to pay core operational costs of the institution, would result in a total increase of five percent in total academic costs charged to students and undedicated general revenue funds available to pay core operating costs for that academic year.

The bill includes a tuition exemption for certain first-time freshman students at general academic institutions if certain criteria are met.

Under provisions of the bill, not later than December 1 of each odd-numbered year, the Legislative Budget Board shall submit to the Senate Finance Committee, the House Appropriations Committee, and the standing committee of each house with primary jurisdiction over higher education, for consideration by the members of those committees in determining the amount of general revenue appropriations to general academic teaching institutions and tuition rates at those institutions, the Legislative Budget Board's estimate of the core operational costs for the next state fiscal biennium for each general academic teaching institution, based on a methodology that: (1) projects for each year of the next biennium: (A) changes in student enrollment for each institution; and (B) a rate of inflation; and (2) uses data from each institution's annual financial report regarding costs for instruction, academic support, institutional support, operations and maintenance of physical plants, and student services. Beginning in 2013, the Legislative Budget Board shall submit with its estimate a comparison of each institution's actual core operational costs for the preceding state fiscal biennium to the board's previous estimate of the institution's core operational costs for that biennium. A Legislative oversight committee would be established to oversee the Legislative Budget Board's development of the estimates.

Methodology

The fiscal note will be broken out by limitation on increases in total academic costs, tuition exemptions for certain first-time students, and administrative costs associated with the biennial report on core operational costs. The limitation on increases in total academic costs only include estimates on designated tuition and fee revenue as statutory tuition is currently capped. Since the tuition exemption includes both designated and statutory tuition, these amounts have been separated in the tables.

Limitation on Increase in Total Academic Costs:

The provisions begin with students enrolling fall 2009 (fiscal year 2010). Based on information reported by institutions, the Higher Education Coordinating Board determined that designated tuition rates plus mandatory fees at general academic teaching institutions have increased, on average, by 11.22% per year for the past three years. However, they believe the rate of increase will slow to about 6.73% (60% of the current rate of increase). Based on the same reports, they determined the statewide average of designated tuition and mandatory fees to be \$2,935 per semester. Based on the average, they determined the institutions that charged more and those that charged less than that amount. They then took the average annual cost of designated tuition and fees at those above the average (\$6,214) and the average of those below the state-wide average (\$4,125).

They applied the 6.73% increase to the fiscal year 2009 estimated designated tuition and mandatory fee rates and derived estimates for fiscal year 2009-2011 for each institution type. Based on those assumptions, they estimated that designated tuition and mandatory fees at general academic institutions above the average would increase from \$6,214 in fiscal year 2009 to \$7,079 in fiscal year 2011 and those below the average would increase from \$3,866 in fiscal year 2009 to \$4,404 in fiscal year 2011. They determined for the general academic institutions with cost below the average that the average increase would be less than the maximum increase allowed by this Act and therefore those institutions will not bear any increased cost.

In fall 2007, the number of full-time student equivalent (FTSE) resident undergraduates enrolled in general academic teaching institutions whose costs were above the average was 209,107. The Higher Education Coordinating Board assumed that the number of FTSEs remains constant. To derive the amount of tuition and fee revenues lost by the schools they multiplied the number of FTSEs by the change in designated tuition each student would have paid if rates were held to a 5% increase. They subtracted the amount of designated tuition and mandatory fees at a level rate from the anticipated amount of designated tuition and mandatory fees (without regulation). Based on this methodology the lost revenue (institutional funds) is estimated to be \$22.5 million (the number of students, 209,107 multiplied by \$108, the designated tuition and fee differential for fiscal year 2010). For fiscal year 2011, the estimate is \$47.6 million, as the tuition differential increases from \$108 to \$228. For purposes of this fiscal note, this same methodology was used for fiscal year 2012-2014. If institutions do not plan to increase the designated and fee amounts by the percentages used for these estimates, the amount of lost revenue would decrease accordingly.

Tuition Exemption for Certain First-Time Freshman Students:

The Higher Education Coordinating Board estimates that beginning in fiscal year 2010, 5,005 students would be eligible for the exemption based on the students attending general academic institutions who complete a FAFSA, were Texas residents, enrolled for at least 15 semester credit hours (SCH), and had an income of \$30,000 or less. With the implementation of this exemption program, they estimated the number of students would increase by 1% each year. To calculate the cost to the institution they multiplied the number of students by the tuition and fee amounts (including designated tuition and statutory tuition) for 15 SCH for undergraduate students attending a general academic teaching institutions. Based on these calculations (5005 * \$2,952 (\$2,202 in designated tuition and \$750 in statutory tuition)) the amount of tuition that will be exempted in fiscal year 2010 is \$14,774,760. Included in this amount is approximately \$11 million in designated tuition (institutional funds) and \$3.7 million in statutory tuition (Fund 770).

Biennial Report by Legislative Budget Regarding Core Operational Costs:

The Legislative Budget Board would need to hire an additional analyst at a total cost for salaries and benefits of \$73,285 per year and a new programmer at a total cost for salary and benefits of \$64,285 per year to implement provisions of the bill.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration, 758 Texas State University System, 769 University of North Texas System Administration, 781 Higher Education Coordinating Board, 783 University of Houston System Administration

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